REPLY COMMENTS CONCERNING IMPACT OF CAF ORDER
BY
ARIZONA LOCAL EXCHANGE CARRIERS ASSOCIATION

The Arizona Local Exchange Carriers Association ("ALECA") hereby provides the following comments in reply to the comments filed by the other parties on May 15, 2012.

The Commission's Role in Implementation and Future Reform

ATT maintains that the Commission should address originating access reform prior to the FCC taking action.\(^1\) In sharp contrast, every other party that filed comments agreed that the Commission should not act on originating access prior to FCC action, if at all.

A pending FCC FNPRM will address originating access and will consider how to minimize any additional customer burden.\(^2\) The Commission should not engage in addressing originating access before the FCC completes its tasks, since doing so may inadvertently be harmful to consumers and carriers. Once the FCC FNPRM is completed, there may be no need at all for further Commission action concerning originating access.

\(^1\) ATT Comments, pp. 6-7.
\(^2\) CAF/ICC Order ¶ 1301)
The Commission should not take action that does less for consumers through burdensome implementation of originating access reductions. To the extent the FCC determines that there will be some amount of recovery from the CAF, this will mitigate the impact upon local rates. The Commission acting prematurely could result in a loss of CAF recovery and place an additional burden on Arizona consumers. ALECA emphasizes its original position that the existing Commission docket on access reform should be closed.

ATT and Sprint recommend the Commission establish procedures to implement intrastate access reform and require LECs to file specific data in support of proposed reductions. The new FCC rules contain detailed instructions for the transition of rate-of-return and price cap carrier’s access charges from their current levels to bill and keep. The Commission does not need to adopt any new rules or procedures, issue any data requests, or take any other actions prior to July 3, 2012, the date that the first access reductions of the FCC’s USF/ICC Order become effective. As recently as June 5, 2012, the FCC’s Wireline Bureau has confirmed that incumbent local exchange carriers (“ILECs”) have significant discretion as to which switched access rate structure (interstate or intrastate) they employ, and as to which particular intrastate terminating access rate elements they reduce and how much they reduce them, in order to comply with the intrastate terminating access reductions required by the FCC. Given this flexibility, the Commission Staff is more than capable to process all related intrastate access tariff filings required to insure compliance with the FCC’s order.

Sprint maintains the CAF Recovery Mechanism (RM) eliminates any consideration for AUSF expansion. The impact of the USF/ICC Order upon ALECA members makes the AUSF critical, as a mechanism to provide support to ALECA members that predominately serve high cost areas in Arizona. Existing federal support is being cut, capped, or eliminated: Nationwide, Rural Local Exchange Carriers (RLECs) received approximately $2.0 billion in federal high-cost

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3 ATT Comments, pp. 8-13; Sprint Comments, pp. 5-8.
4 41 C.F.R §§ 51.907, 51.909
5 Sprint Comments, p. 8.
support during 2011, and they will have a “target budget” of $2.0 billion in federal high-cost
support for at least the next three-to-five years. This “target budget” contains no increase in
high-cost support to enable RLECs to extend and upgrade their existing broadband networks.
RLEC high-cost support is further reduced by:

1. Extending the corporate operations expense cap to ICLS as well as HCLS;
2. Eliminating future Safety Net Additive (“SNA”) support;
3. Establishing a monthly $250 per line cap on an RLEC’s aggregate high-cost support;
4. Imposing quantile regression limitations on capital expenditures and operating
   expenses; and
5. Perhaps in the future, reducing the interstate rate of return.

The Case for Additional AUSF Funding

In making both short-term and long-term decisions regarding the USF/ICC Order and
related matters, the Commission should adopt some guiding principles. ALECA suggests that
such principles include:

1. Recognition that ALECA members have a proven and sustained record of providing
   quality and affordable telecommunications services to many of the high-cost and
   sparsely populated rural portions of Arizona;
2. Acknowledgement that the public telecommunications network is evolving from a
   voice to a higher-and-higher-capacity broadband network that will have major
   impacts upon the future welfare of Arizona, including critical influence upon
   economic development, education (including distance learning) and health care
   (including telemedicine); and
3. Realization that ALECA companies have done a good job to date in deploying quality
   voice and broadband services but will need to make substantial additional
   investments to upgrade their broadband networks in order to offer the high-capacity
   broadband services needed to permit their rural Arizona customers to participate
   actively in the 21st Century economy and society.
Conclusion

The USF/ICC Order will significantly reduce ALECA member’s inter-carrier revenues. Inter-carrier compensation rates, billed on a minutes of use basis, are generally higher in rural areas to recover the higher costs of providing service in those areas. For the year ending December 31, 2011, inter-carrier compensation generally accounted for over half of the ALECA member’s total revenues. The FCC has created an access recovery mechanism to recover a portion of these lost revenues. The recovery mechanism is temporary and will eventually be eliminated. The end result will be a massive reduction in revenue and operating cash flow for ALECA companies with no federal offset. Rural customers will be impacted by higher local rates and all ALECA members will struggle to generate operating capital to continue upgrading and maintaining the facilities required to meet the ever increasing demand for broadband services.

While ALECA members support closing the Access Docket, they continue to emphatically oppose closing the AUSF Docket. The Commission needs to play a critical role in making sure that ALECA members have the revenue streams (including sufficient AUSF support) necessary to preserve, extend and upgrade their broadband networks and services. Indeed without alternative revenue streams, some RLECs may not survive.

RESPECTFULLY SUBMITTED on June 15, 2012.

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